

CITY OF THURMAN, IOWA

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

CITY OF THURMAN, IOWA
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CITY OF THURMAN, IOWA
OFFICIALS
June 30, 2016

(Before January, 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rodney Umphreys	Mayor	January, 2016
Kelli Perrin	Council Member	January, 2016
Glen Travis	Council Member	January, 2016
Teresa Achenbach	Council Member	January, 2016
Nicolette McCullough	Council Member	January, 2016
Marry Kesterson	Council Member	January, 2016
Makayla Umphreys	City Clerk	Indefinite
Clint Fichter	City Attorney	Indefinite

(After January, 2016)

Rodney Umphreys	Mayor	January, 2020
Kelli Perrin	Council Member	January, 2020
Adam Wendland	Council Member	January, 2020
Glen Travis	Council Member	January, 2020
Teresa Achenbach	Council Member	January, 2020
Nicolette McCullough	Council Member	January, 2020
Makayla Umphreys (Resigned February, 2016)	City Clerk	
Jennifer Wendland (Appointed February, 2016)	City Clerk	Indefinite
Clint Fichter	City Attorney	Indefinite

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Honorable Mayor
and Members of City Council

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Thurman for the period July 1, 2015 through June 30, 2016. The City of Thurman's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.

To the Honorable Mayor
and Members of City Council

7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
9. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Thurman, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Thurman, Iowa and other parties to whom the City of Thurman may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Gregory, Ben, Kyhn & Co., P.C.

Atlantic, Iowa
January 17, 2017

DETAILED RECOMMENDATIONS

CITY OF THURMAN, IOWA

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash - handling, reconciling and recording.
- (2) Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll - recordkeeping, preparation and distribution.
- (5) Utilities - billing, collecting, depositing and posting.
- (6) Financial reporting - preparing and reconciling.
- (7) Journal entries - preparing and journalizing.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Chart of Accounts - The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation - To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (C) Deposits and Investments - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation - The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (D) Monthly Financial Reports - The Clerk's monthly financial reports to the City Council included a summary of beginning fund balance, cash receipts, cash disbursements and ending fund balance by fund, but did not include year to date receipts and disbursements or a budget vs. actual comparison by function.

Recommendation - To provide better financial information, the monthly reports should include the year to date receipts and disbursements and a budget vs. actual comparison.

CITY OF THURMAN, IOWA

Detailed Recommendations - Continued

For the period July 1, 2015 through June 30, 2016

- (E) Bank Reconciliations - The cash balances in the City's general ledger were not reconciled to bank account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation - The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (F) City Council Meeting Minutes - The following were identified:

- (1) Chapter 380.7 of the Code of Iowa requires minutes of all City Council proceedings be properly signed. Minutes for the four meetings tested were not properly signed.
- (2) Chapter 372.13(6) of the Code of Iowa requires the publication of City Council minutes to include the total disbursements by fund and a summary of receipts. Minutes for the four meetings tested did not include total disbursements by fund or a summary of receipts.
- (3) Minutes for the four meetings tested did not show sufficient information to indicate the vote of each member present.

Recommendation - The City should comply with the Code of Iowa and authorize City Council minutes with proper signature and include the total disbursements by fund and a summary of receipts in the minutes, as required. Also, the City should document the results of City Council member votes in the minutes.

- (G) Separately Maintained Records - The City of Thurman Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (H) Financial Condition - At June 30, 2016 the City had deficit balances of \$2,180 and \$2,693 in the Fire and Rescue Funds, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

CITY OF THURMAN, IOWA

Detailed Recommendations - Continued

For the period July 1, 2015 through June 30, 2016

- (I) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires all Iowa cities to file an Annual Financial Report (AFR) with the Auditor of State not later than December 1 of each year. The City's AFR for Fiscal Year Ended June 30, 2016 was not filed with the Auditor of State by December 1, 2016.

Recommendation - The City should comply with the Code of Iowa and file its AFR with the Auditor of State by December 1.

- (J) Local Option Sales Tax (LOST) - The City's LOST ballot requires LOST receipts be used 100% for infrastructure. The City's LOST receipts are recorded in the General Fund, and no documentation is maintained to support how the funds were used or the unspent balances held for specific purposes.

Recommendation - The City should establish procedures to properly account for LOST receipts, disbursements and balances in a Special Revenue - LOST fund in accordance with the City's LOST ballot provisions.

- (K) Receipt Posting - We noted multiple Road Use Tax receipts from the State of Iowa were recorded in the General Fund instead of the Special Revenue - Road Use Tax Fund.

Recommendation - A transfer in the amount of \$5,534 should be made from the General Fund to the Special Revenue - Road Use Tax Fund to correct the recording of the road use tax receipts. The City should also establish procedures to properly account for road use tax receipts, disbursements and balances in the Special Revenue - Road Use Tax Fund in accordance with Chapter 312.6 of the Code of Iowa.

- (L) Deposits - The City does not consistently provide adequate detail to identify receipts of cash and checks separately on the bank deposit slips.

Recommendation - The City should separately list cash and checks received on bank deposit slips to allow easier tracing and reconciliation to supporting records.

- (M) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. We noted several checks were issued with only one authorized signature.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature prior to issuance.

- (N) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for its bank checking account.

Recommendation - The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

CITY OF THURMAN, IOWA

Detailed Recommendations - Continued

For the period July 1, 2015 through June 30, 2016

- (O) Disbursement Posting - Disbursements are recorded on the City Clerk's monthly financial reports when they clear the bank, rather than when they are issued.

Recommendation - Disbursements should be posted on the City Clerk's monthly financial report when they are issued.

- (P) Questionable Disbursements - One of the disbursements tested did not have proper supporting documentation and two disbursements tested were not properly approved in the City Council minutes. Therefore, we were not able to determine if these disbursements met the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The City should establish written policies and procedures, including the requirements for retaining proper documentation and approval for all disbursements.

- (Q) Approval and Cancellation of Invoices - The City does not document the approval of invoices to be paid or mark them as "Paid".

Recommendation - The City should document the approval of invoices to be paid by initialing and dating the invoice, and mark each invoice as "Paid."

- (R) Payroll - The following were identified:

- (1) There was no documentation in the City Council minutes approving the wages for fiscal year 2016.
- (2) Monthly net pay amounts were computed incorrectly for each City employee.
- (3) One of the Form 941 federal payroll tax reports tested was not filled out correctly.
- (4) The Mayor and City Council members do not receive W-2s for compensation received.
- (5) The City does not issue 1099s to all vendors who are paid \$600 or more for services provided.

Recommendation - The City should approve wages each fiscal year at a City Council meeting, establish written policies and procedures so that monthly employee net pay amounts and Form 941s are completed correctly, prepare W-2s for the Mayor and City Council members and issue 1099s to all vendors who are paid \$600 or more for services provided.

CITY OF THURMAN, IOWA

Detailed Recommendations - Continued

For the period July 1, 2015 through June 30, 2016

- (S) Certified Budget - The City's Fiscal Year 2016 budget was not certified by March 15, 2015 as required by Chapter 384.16 of the Code of Iowa. In addition, disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works, general government, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The City should comply with the Code of Iowa and certify its budget by March 15 of the preceding fiscal year. Also, the budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

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